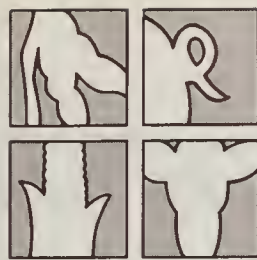


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ANNUAL OUTLOOK--1983

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August, 1982

SEP 09 1982

The economy

There is evidence, although it is scant, that the U.S. economy may be recovering from the recession that began in the fourth quarter of 1981. The strongest evidence of a rebound is the commerce department's preliminary estimate that inflation-adjusted Gross National Product (GNP) grew at an annual rate of 0.6 percent in the second quarter of 1982. According to a Reagan administration spokesman, "The economy is poised for recovery." His comment sets the stage for this discussion of the economy's performance over the next twelve months and of possible similarities between the current situation and recovery phases of past recessions. Participants in agribusiness, especially farmers, should take note of those similarities since they may indicate when agribusiness can expect some relief from its financial difficulties.

First, let us examine the indications that a recovery may be in the offing. Since nearly two-thirds of the U.S. GNP is accounted for by personal consumption, the situation of consumers should be considered first. In April 1982, personal income rose by 0.3 percent and in May by 0.7 percent. Consumer spending in May also rose but by a larger 1.3 percent. The administration has said that a rise in consumer debt in May "suggests that consumer confidence has improved." The willingness of consumers to take on new debt also implies further increases in spending. Unfortunately, spending has not yet risen significantly; retailers reported quite sluggish sales figures for June. Nevertheless, consumer actions during the first half of 1982 for the most part indicate that the economy may receive a boost. The 10 percent tax cut and the 7.4 percent social security increase, representing a total increase in consumer income of \$44 billion or about 2 percent, virtually assure that consumer spending will increase in the last half of 1982 and into 1983.

The other three components of GNP that may be looked toward for signs of recovery are less promising. Gross private domestic investment is not likely to increase soon because the construction industry is still faced with high interest rates and because a large proportion of plant capacity in other businesses is unused. Overall expenditures by the federal government on goods and services (when adjusted for inflation) will probably be at a stand-still in the coming year, and net exports of goods are virtually negligible in relation to total GNP.

There are several other hindrances to a recovery. Unemployment currently stands at 9.5 percent and is

predicted to rise. Interest rates remain high (the prime is at 15 percent) and are expected to be slow to decline. Even the slight GNP increase expected for the second quarter has a negative aspect to it, for the increase is partially the result of a slowdown in inventory liquidation. Even so, GNP should increase as consumer spending offsets the sluggishness of the other three components.

Supposing that a recovery is imminent, what might it look like? The three most recent recessions, which occurred in 1969-1970, 1974-1975, and 1980, may provide us with some clues about what might happen to GNP, unemployment, inflation, and interest rates.

Despite the predictions of a sluggish recovery in the final half of 1982, it should be kept in mind that during earlier recoveries, even that of 1980, there were sharp increases in GNP. For example, in 1980 the GNP declined at an annual rate of 9.9 percent in the second quarter, followed by a sharp recovery in the first, second, and third quarters to an annual growth rate of 8.6 percent. In addition to being sharp, the recovery may also be lengthy. Although the length of the economy's expansionary phases ranges from 12 to 106 months, the average phase is 45 months.

Even when business activity picks up quickly during a recovery, unemployment usually lags well behind. The first nine months of the recovery from the 1969-1970 recession were characterized by continued rising unemployment. Employers hesitated to rehire workers until they were certain that the recession was over.

Inflation typically remains low during the initial months of a recovery period. In the last three recovery periods, the inflation rate one year after the recovery began was 1½ to over 2 percent less than at the beginning of the recovery.

During recovery interest rates behave much as inflation does. That is, they usually come down toward the end of a recession and may be even lower one year after the recovery has begun. That was true in the 1969-1970 and 1973-1975 recessions. The recession of 1980 proved to be an exception; interest rates climbed at the beginning of the recovery and reached new highs within a year.

Will the recovery from the 1981-1982 recession follow the pattern of previous recoveries? It would seem so, at least with respect to GNP, unemployment, and inflation. The recovery is likely to be consumer-oriented, and consumer spending is likely to be broad-based, although it may not include housing. Once businesses sense that consumer spending is on the rise, they are likely to increase production rapidly to ensure that

inventories are adequate to meet increasing consumer demand. Thus, further increases in GNP are likely to be rather sharp at least within the first six to nine months of the recovery. Unemployment is likely to remain high during the first months of a recovery. Given the large number of layoffs in the past year, however, it may be necessary to begin rehiring workers earlier as use of production capacity increases. Inflation is also likely to remain stable, first, because businesses might fear that the recovery will abort if they raise prices and, second, because productivity rises and unit costs decline rapidly with the onset of a recovery.

The direction of interest rates in the forthcoming recovery is more difficult to forecast. Some economists might argue that interest rates will decline as a recovery begins because business demand for loans to finance inventories should decrease. In addition, government tax revenues tend to increase after the recovery is under way, thus alleviating the need for substantial borrowing by the federal treasury. The tightness of the money supply, however, and the projected size of the 1982 and 1983 federal budget deficits, which assume recovery, may keep interest rates high. Obviously, the key to any sustained recovery will be declining interest rates through 1982 and 1983.

The effects of the recovery should be highly beneficial for agriculture. Certainly, rising consumer incomes will lead to increased expenditure by consumers on food, especially items such as meat on which they tend to spend less during a recession. Increased consumer demand for meat should lead to higher profits for livestock producers and create incentives to increase production, thus increasing demand for feed grains as well. If the economic recovery is genuine, interest rates will decline at least some, helping to reduce the costs of borrowing by farmers and others in agribusiness. Declining interest rates might also make the U.S. dollar somewhat less attractive on world money markets, causing increases in export demand for U.S. agricultural commodities. — *Hal W. Everett*

Farm input costs

The rate of increase in the prices of the major farm inputs during the year ended June 15, 1982, was about as anticipated a year earlier. Overall, the prices of production items increased about 2 percent, although changes in price varied considerably by type of input. The price of agricultural production items rose more slowly than prices in general. However, the average price received for farm products declined by 3 percent.

Prices paid for feed were 9 percent lower than a year earlier because of a bumper feed grain crop in 1981. Corn stocks were about 39 percent higher in June 1982 than a year earlier. Feeder livestock prices were about 4 percent higher in June 1982 than in June 1981. Cattle numbers increased only about 1 percent from 1981 to 1982. The June pig crop report indicated that hog production dropped by 10 percent in 1982.

The fuel and energy price index was about 2 percent lower in June 1982 than in June 1981. Gasoline and

Changes in Prices from June 15, 1981, to June 15, 1982

Item	Percent change
Prices paid	
Feed	—9
Feeder livestock	4
Fertilizer	—1
Agricultural chemicals	7
Fuel and energy	—2
Tractors and S.P. machinery	8
Farm services and cash rent	7
Interest per acre on R.E. loans	12
R.E. taxes per acre	6
Wage rates	10
Production items, interest, R.E. taxes, and wages	2
Prices received	
Crops	—9
Feed grains	—17
Livestock and products	3
All farm products	—3

diesel prices were about 10 percent lower. Electricity rates increased 12 to 15 percent during the past year.

The agricultural chemicals price index increased about 7 percent, and fertilizer prices were about 1 percent lower than a year ago. The reduction in supplies and OPEC pricing policies should result in higher fuel prices and fuel-related input prices for the coming year.

Farm machinery prices were 8 to 9 percent higher than a year earlier in spite of depressed sales, high interest rates, and depressed farm incomes. Because farmers have delayed buying machines for the past two years, repair bills have become quite high.

Interest payable per acre on farm real estate debt increased about 12 percent during the year ended June 15, 1982. Interest rates for non-real-estate loans are tied closely to the nation's money market. In 1978 about 2.4 percent of deposits at agricultural banks were money market certificates. By the end of 1981, those certificates accounted for about 27.6 percent of deposits. The rise in interest rates has also made it more difficult for commercial banks to compete with PCAs in making non-real-estate loans. Interest rates at PCAs are determined by the average cost of funds in the nation's money markets.

Interest rates are likely to remain high during the remainder of 1982. The tight money policy of the Federal Reserve Board and reduced government spending should keep the inflation rate relatively low. Reduced inflation will eventually lead to lower interest rates.

Record feed grain supplies and good 1982 crop prospects offer little hope for grain price increases in the 1982-83 crop year. The index of prices paid in 1982-83 should show only a modest increase. — *R. B. Schwart*

Corn

Corn production in 1981 reached a record level of 8.2 billion bushels, 6 percent above the August 1981 estimate. Total use of corn during the crop year was about 7.2 billion bushels, nearly 7 percent less than we estimated a year ago. Carryover stocks increased by nearly 1.0 billion bushels, and the price of corn dropped to the government loan price.

In August acreage planted in 1982 was estimated to be 81.88 million acres, a cut of nearly 2.8 percent from 1981. Acreage of other feed grains (sorghum, oats, and barley) was estimated to be 39.8 million acres, down only 1.0 percent from 1981.

In its August crop report, the USDA estimated that the 1982 corn crop would be about 8.3 billion bushels. This estimate reflects an average yield of 113.9 bushels per acre on 73.0 million acres. With carryover supplies of 2.0 billion bushels, corn supplies total an estimated 10.3 billion bushels, a 12 percent increase from a year ago. Production of all feed grains is estimated to be 277.7 million short tons, a 1 percent increase from last year. Because of larger carryover stocks, however, feed grain supplies are 13 percent larger than last year.

CONSUMPTION

The use of corn for seed, food, and industrial purposes continues to increase. Much of this growth in recent years has resulted from increased manufacture of corn sweeteners. Because of a rebound in world sugar production, growth in the corn sweetener market will be modest in 1982-83. More corn will be used for fuel alcohol production. Preliminary estimates place total domestic nonfeed use at 815 million bushels.

The large corn crop in 1981 and resulting low prices stimulated an increase in corn feeding in 1981-82. Substantially higher hog prices in the spring and summer of 1982 also benefited corn demand. Corn feeding in 1981-82 is projected to be 4.375 billion bushels.

Corn feeding during 1982-83 will be stimulated by a favorable livestock to feed price ratio. This favorable ratio will encourage high feeding rates per animal and some expansion in hog production. Beef and poultry production in 1983 will probably be no lower than in 1982. We expect corn feeding during 1982-83 to approach the record of 4.5 billion bushels set in 1979-80.

Disappointing corn exports during the 1981-82 crop year accounted for all of the difference between actual corn use and our estimates of a year ago. Imports of U.S. corn dropped substantially in the European Economic Community (21 percent), eastern Europe (40 percent), Japan (22 percent), and Mexico (85 percent). Exports to Spain, Russia, China, and Africa were larger than they were a year ago.

For the year ahead, coarse grain production outside the United States is expected to increase about 1 percent. A large share of that increase is forecast for Russia. Since a crop of the size expected would still be extremely small compared to Russian needs, the potential for U.S. corn exports is once again very large. The greatest hindrance will be the depressed nature of world economies. Early estimates include a modest increase in exports to 2.3 billion bushels.

PRICES

Corn production has exceeded use in six of the past seven years. Preliminary estimates of production and demand suggest that the 1982 corn crop will exceed demand once again. Carryover stocks on September 30, 1983, could exceed 2.7 billion bushels. If current ex-

Corn Balance Sheet — Years Beginning October 1

	1978-79	1979-80	1980-81	1981-82 ^a	1982-83 ^b
million bushels					
Carryin	1,111	1,304	1,617	1,034	2,036
Production	7,267	7,939	6,645	8,201	8,315
Supply	8,380	9,244	8,213	9,236	10,352
Seed, feed, ind. ...	620	675	735	785	815
Export	2,133	2,433	2,355	2,040	2,300
Feed	4,323	4,519	4,139	4,375	4,500
Disappearance	7,076	7,627	7,229	7,200	7,615
Carryout	1,304	1,617	1,034	2,036	2,737
U.S. average price..	\$2.25	\$2.52	\$3.11	\$2.47 ^c	...

^a Partial estimate. ^b Projection. ^c October through June.

pectations are realized, corn prices will be dominated by the government loan program. If that happens, the price of corn at harvesttime could drop below the loan price (\$2.55) by *at least* the cost of storing corn for nine months. Limited storage facilities could result in a more severe discount in some areas. Low prices would presumably lead to widespread use of the loan program by eligible producers. Free market supplies might then become tight enough to push corn prices high enough to bring loan corn back on the market by the summer of 1983. A price of about \$2.85 would be the break-even point for loan redemption.

If the government loan and reserve programs work, the average price of corn will be about \$2.55. However, if eligible farmers are not able to use the program to the maximum because of limited storage space, the price may average below the loan rate of \$2.55 and below the average for 1981-82. The likelihood of low prices for most of the year may lead to a more aggressive set-aside program for 1983. The administration may be forced to consider implementing a paid diversion program. Farmers may be more responsive to a set-aside program in 1983. — *Darrel Good*

Wheat

The U.S. wheat market will be dominated by near record domestic and world wheat production. Production in the United States should total just under 2.8 billion bushels, or about 1 percent less than last year's crop. World production of wheat in 1982-83 will also fall just short of last year's record level by about 6 percent. But this year's production combined with stocks on hand at the beginning of the marketing year will still result in record supplies of wheat. These supplies will probably exceed world demand and allow for an additional buildup of stocks.

The high level of wheat production in the United States results from our winter wheat crop of 2.095 billion bushels, which exceeded last year's record level by just over 1 percent. The 1982 spring wheat crop will fall to 585 million bushels from 694 million bushels last year. Given a carryover of 1.159 billion bushels of wheat from last year, total wheat supplies in the United States for 1982-83 will be a burdensome 3.877 billion bushels, about 2½ percent larger than last year.

Wheat Balance Sheet — Years Beginning June 1

	All wheat			Soft red wheat	
	1980-81	1981-82	1982-83 ^a	1981-82	1982-83 ^a
	million bushels				
Carryin	902	989	1,159	38	60
Production	2,374	2,793	2,769	673	617
Supply ^b	3,279	3,784	3,928	711	677
Food	614	611	615		
Seed	114	112	110	191 ^c	196 ^c
Feed	52	122	125		
Export	1,510	1,780	1,750	460	420
Disappearance	2,290	2,625	2,600	651	616
Carryout	989	1,159	1,328	60	61
U.S. farm price	\$3.91	\$3.70	\$3.70
So. Ill. farm price	\$3.44	\$3.60-3.70

^a Projection. ^b Includes imports. ^c This figure includes use of soft red wheat for food, seed, and feed.

Total disappearance of U.S. wheat is likely to be down by about 25 million bushels in the 1982-83 marketing year because of a reduction in exports to 1.75 billion bushels from 1.78 billion bushels last year. Since most countries that export and import wheat have larger wheat crops this year, they have less need for U.S. wheat. Both the Soviet Union and the People's Republic of China, however, are expected to have shortfalls in their wheat crops this year. Disappearance of wheat for domestic food use will remain relatively stable at around 615 million bushels, but feed disappearance will remain high as a result of continued low wheat prices. Seed use will drop slightly as a result of reduced plantings. Wheat use will total 2.6 billion bushels in 1982-83, just below last year's record 2.63 billion bushels. Disappearance will still be exceeded by production, leading to an increase in ending stocks of nearly 170 million bushels to 1.328 billion bushels.

Although the entire wheat market will probably remain in the doldrums, the soft red wheat (SRW) market may improve slightly, particularly in Illinois. Production of SRW in the United States is expected to fall 8 percent to 617 million bushels, and total supplies are expected to drop almost 5 percent to 677 million bushels. In Illinois, SRW production will drop to 69.1 million bushels, more than 25 percent less than last year's 92.5 million bushels. Domestic disappearance of SRW is expected to rise slightly from that of a year ago, but exports may fall by about 40 million bushels to a total of 420 million bushels. Ending stocks of SRW are likely to remain about the same as last year's.

The price paid to U.S. farmers for wheat is not likely to be different from last year's price of \$3.70 per bushel. Prices will probably be supported at last year's level by the USDA's regular loan rate of \$3.55 per bushel and \$4.00 per bushel for wheat placed in the farmer-owned reserve. In Illinois farmers are likely to receive a higher price than the \$3.44 per bushel received last year. The substantially reduced SRW crop in Illinois, the state's closeness to the port of New Orleans for exports, and higher support prices should lead to a rise of at least 15 cents in the price paid for wheat in southern Illinois. — *Hal Everett*

Soybeans

Soybean prices during 1981-82 were significantly lower than our projections of a year ago. Although supplies turned out to be smaller than early estimates, demand was weaker than expected for a number of reasons. A surplus of cheap feedgrains and low livestock prices kept pressure on soybean meal prices. A surplus of vegetable oils and worldwide economic problems resulted in extremely low soybean oil prices. Although soybean use equaled year-ago expectations, the high rate of use made prices lower than anticipated.

The USDA estimates planted acreage for 1982 to be 72.3 million acres, an increase of 4.3 million from 1981. The increased plantings reflected the low price of feedgrains and the lower cost of planting soybeans compared to competing crops.

In its August crop production report, the USDA forecast that the 1982 soybean crop would be 2.3 billion bushels. With carryover supplies of 270 million bushels, total supplies will be 2.56 billion bushels, about 10 percent larger than a year ago but about 5.0 percent more than the record supplies of 1979-80. Prices will once again depend largely on the strength of demand for soybean meal and soybean oil.

CONSUMPTION

Domestic use of soybean meal during the year ahead will be stimulated by higher livestock prices and by expansion in hog production. During the 1981-82 marketing year, soybean meal feeding totaled 14.6 percent of corn feeding. If that relationship holds during 1982-83, it is likely that 18.7 million tons of soybean meal will be fed. Soybean meal exports may show only a modest improvement, perhaps to 7.6 million tons. Total meal consumption of 26.0 million tons would require a domestic crush of about 1.09 billion bushels.

Soybean oil stocks declined significantly during the 1981-82 marketing year, although they remained high. If 1.09 billion bushels of soybeans are crushed during the year ahead, about 11.8 billion pounds of oil will be produced. A trend increase in domestic soybean oil consumption and a modest increase in soybean oil exports are forecast. Total oil use may reach 12.1 billion pounds. If so, stocks will be reduced another 300 million pounds by the end of the 1982-83 marketing year.

Soybean exports reached record levels during the 1981-82 marketing year. Exports were stimulated by a rebound in European demand for soybean meal, a disruption in Argentine exports, and a small soybean harvest in Brazil. Preliminary estimates are that 1982-83 exports will reach 920 million bushels.

If early production, crush, and export estimates are correct, soybean inventories will increase substantially during the year ahead.

PRICES

From September 1981 through June 1982, the price of soybean meal at Decatur, Illinois, averaged \$187.25 per ton. During the same period, the price of corn offered to central Illinois elevators was \$2.62 per

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Soybean Balance Sheet — Years Beginning September 1

	1978-79	1979-80	1980-81	1981-82 ^a	1982-83 ^b
million bushels					
Carryin	161	174	359	318	269
Production	1,870	2,268	1,792	2,000	2,293
Supply	2,031	2,442	2,151	2,318	2,562
Crush	1,018	1,123	1,020	1,040	1,090
Export	753	873	724	920	920
Seed and residual..	86	87	89	89	90
Disappearance	1,857	2,083	1,833	2,049	2,100
Corryout	174	359	318	269	462
U.S. overage price..	\$6.66	\$6.10	\$7.57	\$6.10 ^c	...

^a Partial estimate. ^b Projection. ^c September through June.

bushel. On a per pound basis, the price of soybean meal was exactly double the price of corn. That ratio is near the long-term average and is what we projected a year ago. Since for the year ahead the average price of corn offered to elevators is forecast to be about the same as last year's, soybean meal at Decatur should be priced at an average of \$187.25.

Although soybean oil supplies will be abundant, inventories should decline significantly. Oil prices should at least be maintained near the long-term average of 10 cents in 1972 dollars. In 1982 dollars, the long-term average would be 20 cents per pound.

If soybean meal is priced at \$187.25 per ton and oil at 20 cents per pound, soybean prices should be about \$6.30 per bushel at the farm.

The projections and estimates provided here are, as always, tentative. Subsequent production estimates may alter the supply situation and should be monitored closely. Later in the year, production prospects in South America will begin to exert significant influence on the soybean market. The extent of general economic recovery, if any, will also be vital. — *Darrel Good*

Hogs

Hog producers sustained large losses from June 1979 through May 1981, a loss period of record length. Their first response was to reduce by 2.1 percent sows farrowing during March-May 1980, nearly a year after they moved into the loss column. This first cut was not enough to correct the problem. In each quarter since March-May 1980, farrowings have been smaller than in the year before. Production was slightly profitable during the fall of 1981 and winter of 1982, and profits reached record levels during the summer of 1982. The cumulative reduction in output was large. In March-May 1982, 22.6 percent fewer sows were farrowed than during March-May 1979. On June 1, 1982, intentions to farrow during June-November 1982 were 18.1 percent smaller than farrowings during June-November 1979. If those intentions materialize, slaughter will remain relatively small through mid-1983 (see accompanying table). There are two key questions about hog prices in the future: (1) Will the intended reductions materialize? and (2) When will hog producers over-expand?

The March-May 1982 pig crop was down 9.1 percent from the 1981 crop and indicates a September-November commercial slaughter of 20.0 million head. The reduced slaughter, coupled with slightly larger supplies of other meats, moderate recovery from recession, and continued moderate inflation, may result in hog prices of about \$60 this fall.

The reduced intentions to farrow during June-November can be projected to a December-May 1983 slaughter of 39.0 million head, compared to 43.9 million during last December-May. Reduced slaughter, moderate increases in supplies of competing meats, moderate recovery from recession, and further inflation indicate hog prices of more than \$65 for the December-May period. Although these prices seem high, they are reasonable compared to prices from mid-1977 to mid-1979, when slaughter was about the same as is projected for 1982-83. In constant 1972 dollars, the 1977-1979 price was \$31.71, about equal to the \$32.09 projected for 1982-83.

The reduced supplies for 1982-83, which are based on the June hogs and pigs report, may not materialize. Based on the June 1981 report, the 1981-82 slaughter was projected to be 83.8 million, but the actual slaughter turned out to be 87.9 million. The same thing may happen again. It was clear by late summer of 1981 that corn was in surplus and would be relatively low priced. Hogs are a high-priced outlet for corn. When nonfeed costs of producing hogs are \$20.50 per hundredweight and soybean meal is \$185 per ton, a bushel of corn is worth \$4.88 when marketed through a \$60 hog. The loan equivalent corn price for 1982 is about \$2.67. This imbalance will not persist indefinitely.

Assuming that current intentions to farrow materialize, the question arises of when the turn in the hog cycle will come. In the past there typically has been a three-quarter lag between a profitable period and an increase in sows farrowing. If producers' response to the profitable period of last March-May resembles the average response of the past decade, there should be an increase of 1.3 percent in sows farrowing during December-February and a 6.5 percent increase during March-May 1983. Unused facilities are in place that can be brought back into production without delay.

In summary, it appears that relatively high hog prices and high profitability should continue through

Hog Slaughter, Prices, and Profits

June-Moy	Slaughter, 1,000 head	Price, \$/cwt.		Profit/loss, \$/cwt.
		1972 \$	Current \$	
1972-73	81,450	31.07	31.57	+ 5.62
1973-74	78,056	36.94	39.86	+ 3.57
1974-75	78,049	32.17	38.30	+ 0.17
1975-76	66,355	40.77	52.08	+12.08
1976-77	77,553	29.87	39.85	+ 0.69
1977-78	77,149	31.36	44.76	+ 9.65
1978-79	79,458	32.06	49.07	+10.19
1979-80	95,896	21.59	36.21	— 7.39
1980-81	93,706	23.68	43.18	— 6.22
1981-82	87,937	24.31	48.54	+ 1.82
1982-83	77,955 ^a	32.09 ^a	67.47 ^a	+20.89 ^a

^a Forecast.

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the first half of 1983. However, the peaks in hog prices may not be as high as current supply projections indicate, and hog producers should expect substantial expansion and eventually lower prices as long as corn remains in surplus. — *Thomas Hieronymus*

Beef cattle

After increasing two years in succession, cattle numbers appear to have stabilized in 1982, and some liquidation of the breeding herd has begun. If cattle numbers do in fact stabilize, this cattle cycle will have been the shortest on record. In the last cycle, cattle numbers increased from 108.8 million head on January 1, 1967, to 132.0 million on January 1, 1975; that is eight years of growth. The fastest and largest liquidation on record occurred when cattle numbers dropped to 110.9 million over a four-year period ending January 1, 1979. Events since the mid-1970s suggest that a true cattle cycle no longer exists and that short-term market factors now control beef supplies.

The July 1, 1982, inventory of all cattle and calves was 123.7 million head, down 1 percent from that of July 1, 1981. Beef cow numbers were down 3.7 percent, and beef replacement heifers were down 1.8 percent. The 1982 calf crop was estimated by the USDA to be 43.6 million, compared to 44.7 million in 1981.

Why is the liquidation taking place? Forage supplies are large enough to support more than the current inventory of beef cattle. Grain supplies are very large, and low-priced grain tends to result in favorable feeder cattle prices. The answer must be that nonfeed costs are forcing cow-calf operators to liquidate. The main nonfeed cost is interest. Cow-calf operators have had to curtail expansion plans and reduce herd size to reduce interest costs. In view of the favorable underlying circumstances, cattle numbers will probably increase when interest rates decrease.

The cattle slaughter projected for 1982 (see accompanying table) assumes that slaughter will increase in the second half of the year by about the same amount as in the second half of 1981. The ending inventory of 115.2 million is based on a 1.5 million head cut in beef cow numbers and an 8.5 percent increase in feeder cattle supplies to be carried over into 1983.

Slaughter projections for 1983 assume no change in the breeding herd size during 1982 and a slightly larger calf crop in 1983. The projected production of 22.1 billion pounds of beef assumes that slaughter weights will continue at the 1982 level.

Cattle prices during 1983 will be affected by supplies of competing meats, primarily pork, broilers, and turkeys. Broiler production during 1982 is about equal to that of 1981, and turkey production is down nearly 5 percent. Pork production in 1982 is down 12 percent from 1981 levels. These reductions in competing meat supplies are the result of losses sustained from mid-1979 through mid-1982. The profit picture changed abruptly in the second half of 1982. The huge 1981 corn crop has put pressure on prices, making animal feeding a much better outlet for corn than the market. The carryover corn in the fall of 1982 is very large, and a big 1982 crop will be added to it to put total supplies at a record level. The combination of record feed supplies and attractive livestock prices in 1982 may result in a sharp increase in total meat supply. In 1981 per capita meat supplies reached a record of 200 pounds, retail weight, putting severe pressure on livestock prices. The per capita total was reduced to about 190 pounds in 1982. Per capita availability may go back up to 195 pounds in 1983. The market will be amply supplied with meat during 1983.

Consumer demand for meat was weak during 1981 and the first half of 1982; that is, consumers did not spend as much money for meat as in earlier years, when changes in meat supplies, real disposable income, and inflation are taken into account. The most likely cause is that during the recession consumers have found it relatively easy to reduce meat expenditures. It is doubtful that consumers will become aggressive purchasers of meat until meat supplies are sharply reduced, until there is a strong recovery from recession, or until both occur.

Measured in constant valued dollars, the price of cattle has been low for the past two years, lower than all but three of the years shown in the accompanying table. The low price in 1970 was associated with very large supplies of pork. Low prices in 1976 and 1977 were associated with rapid liquidation of cattle and large beef production. This pressure may be offset by stronger consumer demand if there is a strong recovery from recession. There will be a tendency for cattle prices to move up with general inflation. During mid-1982 the annualized core inflation rate was about 5 percent. On balance, we should expect moderately higher cattle prices during 1983. — *Thomas Hieronymus*

Cattle Industry Data

Year	Million head			Beef prod'n, mil. lb.	Omaha Choice steers, price/cwt.	
	On farms Jan. 1	Calf crop	Cattle slaughter		1972 \$	Current \$
1969	110.0	45.2	35.6	21.0	34.23	29.68
1970	112.4	45.9	35.4	21.5	32.11	29.34
1971	114.6	46.7	35.9	21.7	33.89	32.54
1972	117.9	47.7	36.1	22.2	35.76	35.76
1973	121.5	49.2	34.1	21.1	42.11	44.60
1974	127.8	50.9	37.4	22.8	36.47	41.85
1975	132.0	50.2	41.5	23.7	35.31	43.80
1976	128.0	47.4	43.2	25.7	29.23	39.11
1977	122.8	45.9	42.4	25.0	28.70	40.39
1978	116.3	43.8	40.0	24.0	34.41	52.33
1979	110.9	42.6	34.0	21.3	44.59	67.75
1980	111.2	45.0	34.1	21.5	37.76	66.96
1981	114.3	44.7	35.2	22.2	32.96	63.84
1982	115.7	43.6	35.8	22.2	32.95 ^a	67.65 ^a
1983 ^b	115.2	44.0	35.7	22.1

^a Partial forecast. ^b Forecast.